

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF FANCY FARM WATER	)	
DISTRICT FOR A RATE ADJUSTMENT PURSUANT	)	
TO THE ALTERNATIVE RATE FILING PROCEDURE	)	CASE NO. 95-359
FOR SMALL UTILITIES	)	

O R D E R

On August 21, 1995, Fancy Farm Water District ("Fancy Farm") filed an application with the Public Service Commission seeking approval of proposed water rates. Commission Staff, having performed a limited financial review of Fancy Farm's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 15 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 9th day of October, 1995.

ATTEST:

PUBLIC SERVICE COMMISSION

  
\_\_\_\_\_  
Executive Director

  
\_\_\_\_\_  
For the Commission

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF FANCY FARM WATER	)	
DISTRICT FOR A RATE ADJUSTMENT	)	
PURSUANT TO THE ALTERNATIVE RATE	)	CASE NO. 95-359
FILING PROCEDURE FOR SMALL UTILITIES	)	

STAFF REPORT

Prepared By: Karen Harrod, CPA  
Public Utility Financial  
Analyst, Chief  
Water and Sewer Revenue  
Requirements Branch  
Division of Financial Analysis

Prepared By: John Geoghegan  
Public Utility Rate Analyst,  
Chief  
Communications, Water and  
Sewer Rate Design Branch  
Division of Rates and Research

STAFF REPORT  
ON  
FANCY FARM WATER DISTRICT  
CASE NO. 95-359

On August 21, 1995, Fancy Farm Water District ("Fancy Farm") filed an application with the Kentucky Public Service Commission ("Commission") seeking approval to increase its tariffed water rates by 52.6 percent, an increase in annual operating revenues of \$37,411. Fancy Farm requested assistance from Commission Staff ("Staff") in the preparation of its Alternative Rate Filing Application as allowed pursuant to 807 KAR 5:076, Section 2. In order to assist in the preparation of this application, Staff performed a limited financial review of Fancy Farm's test year operations, the calendar year ending December 31, 1994.

The scope of the review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Karen Harrod of the Commission's Division of Financial Analysis performed the limited review on June 20-21, 1995. Ms. Harrod is responsible for the preparation of this Staff Report except for the determination of Normalized Operating Revenue, Rate Design, and Attachment C, which were prepared by John Geoghegan of the Commission's Division of Rates and Research.

It should be noted that Fancy Farm's operations consist of both a water division and a sewer division. As a result, certain expenditures are allocated between the two divisions. Fancy Farm allocates these expenditures based on number of customers or, 2/3 to the water division and 1/3 to the sewer division. Staff has utilized these same allocations for rate-making purposes.

A copy of Fancy Farm's Adjusted Net Operating Income Statement is shown on Attachment A. Attachment B details the revenue requirement determination. Staff recommends that Fancy Farm be allowed to increase its annual operating revenues by the requested amount of \$37,411. The rates contained in Attachment C will achieve Staff's recommended level of revenue.

Signatures

Handwritten signature of Karen Harrod, CPA.

Prepared By: Karen Harrod, CPA  
Public Utility Financial  
Analyst, Chief  
Water and Sewer Revenue  
Requirements Branch  
Financial Analysis Division

Handwritten signature of John Geoghegan.

Prepared By: John Geoghegan  
Public Utility Rate Analyst,  
Principal  
Communications, Water and  
Sewer Rate Design Branch  
Division of Rates and Research

ATTACHMENT A  
STAFF REPORT CASE NO. 95-359

FANCY FARM WATER DISTRICT  
STATEMENT OF OPERATIONS  
Test Year Ended 12/31/94

	<u>Test Year</u>	<u>Recommended Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues:			
Water Sales	\$ 74,247	\$ (3,179) (1)	\$ 71,068
Other Operating Revenues	<u>3,085</u>	<u>(1,338) (2)</u>	<u>1,747</u>
Total Operating Revenues	\$ 77,332	\$ (4,517)	\$ 72,815
Operating Expenses:			
Salaries & Wages	\$ 26,559	\$ (3,892) (3)	\$ 22,667
Purchased Power	9,609	(1,320) (4)	8,289
Chemicals	7,029		7,029
Materials & Supplies	16,081	(1,979) (5)	14,102
Contractual Services	3,055	(333) (6)	2,722
Transportation Expense	4,975		4,975
Insurance	9,875		9,875
Regulatory Commission Expense	239		239
Miscellaneous	6,010	(938) (7)	5,072
Depreciation	13,408	388 (8)	13,796
Taxes other than Inc. Taxes	<u>12,542</u>	<u>(3,661) (9)</u>	<u>8,881</u>
Total Operating Expenses	<u>\$109,382</u>	<u>\$ (11,735)</u>	<u>\$ 97,647</u>
Operating Income	\$ (32,050)	7,218	(24,832)
Other Income			
Interest Income	996	(259) (10)	737
Non-utility Income	<u>903</u>	<u>(903) (11)</u>	<u>-0-</u>
Total Other Income	\$ 1,899	\$ (1,162)	\$ 737
Interest Expense	<u>36</u>	<u>(36) (12)</u>	<u>-0-</u>
Net Operating Income/(Loss)	<u>\$ (30,187)</u>	<u>\$ 6,092</u>	<u>\$ (24,095)</u>

- (1) Operating Revenues - Water Sales  
Fancy Farm's reported operating revenue from rates was \$74,247. Staff performed a billing analysis which indicated Fancy Farm's present rates should produce \$71,068 annually, resulting in a \$3,179 decrease.

(2) Operating Revenues - Other Operating Revenues

This account has been decreased by \$1,338 to reflect the net effect of the reclassification of certain revenues. Test year other operating revenues included \$1,800 of tap-on fees which should have been reported as a contribution. Other water revenues, cut-off fees, and return check fees were reported as non-utility income. It would be more appropriate to classify these revenues as other operating revenues. The calculation of the net adjustment is as follows:

Tap-on fees	\$ (1,800)
Other water revenues	222
Cut-off fees	200
Return check fees	<u>40</u>
Recommended Decrease	<u>\$ (1,338)</u>

(3) Salaries & Wages

This account has been decreased by \$3,892 to reflect the current level of salary expense allocated to water operations for Fancy Farm's employees, calculated as follows:

Operator/Supervisor	\$24,000
Bookkeeper	<u>10,000</u>
Total Salary Expense	\$34,000
	<u>x 2/3</u>
Portion Allocated to Water	\$22,667
Less: Test Year Expense	<u>26,559</u>
Recommended Decrease	<u>\$ (3,892)</u>

(4) Purchased Power

This account has been decreased by \$1,320 to eliminate a non-recurring expense. During the last 3 months of the test year Fancy Farm made payments to Mayfield Electric & Water Systems for services that were required to be performed by a licensed operator. Fancy Farm now has a licensed operator and it is no longer necessary for these services to be contracted out.

(5) Materials & Supplies

This account has been decreased to reflect items that were included in test year materials and supplies expense but should be capitalized for rate-making purposes. The total adjustment is calculated as follows:

Pressure Recorder	\$ 328
Computer	1,118
Software	<u>533</u>
Recommended Decrease	<u>\$1,979</u>

(6) Contractual Services

This account has been decreased to eliminate a non-recurring expense. During the test year Fancy Farm incurred expenses of \$500 (\$333 of which was allocated to the water operations) for consulting fees related to the new computer and software. These fees were for system research and analysis, system setup, and training and are not expected to recur.

(7) Miscellaneous Expense

This account has been decreased by \$938 to eliminate test year expense for meter deposit refunds and a Christmas party in the amounts of \$345 and \$593, respectively. Meter deposit refunds should be recorded as a reduction to the customer deposits account rather than as operating expenses. Expenses incurred for activities such as Christmas parties are generally disallowed for ratemaking purposes.

(8) Depreciation Expense

This account has been increased to include the depreciation expense for those items being capitalized as explained in adjustments 5 and 9.

<u>Description</u>	<u>Total Est. Cost</u>	<u>Estimated Serv. Life</u>	<u>Annual Exp.</u>
Pressure Recorder	\$ 328	10 yrs.	\$ 33.00
Computer Hardware	1,118	5 yrs.	224.00
Computer Software	533	5 yrs.	107.00
New Installation	962	40 yrs.	<u>24.00</u>
Recommended Increase			<u>\$ 388.00</u>

(9) Taxes other than Income Tax

This account has been decreased by \$3,661 to reflect the appropriate level of expense for ratemaking purposes.

Based on the recommended decrease to salary expense of \$3,892, an adjustment is required to decrease FICA expense by \$298 (\$3,892 x 7.65%).

School taxes and sales taxes were reported in test year expense in the amounts of \$2,038 and \$363, respectively. Since Fancy Farm merely serves as a collection agent for these taxes, these amounts should not be considered as operating expenses for ratemaking purposes.

A new installation expense of \$962 was erroneously reported as taxes other than income tax expense during the test year. This amount should be capitalized and depreciated for ratemaking purposes.

(10) Interest Income

This account has been decreased by \$259 to reflect the appropriate level of interest income for ratemaking purposes. Fancy Farm reported test year interest income of \$996. Included in that amount was \$31 on customer deposits which can not be used to offset operating expenses. \$228 of test year interest income was earned from certificates of deposit that have now been cashed in and are no longer earning interest.

(11) Non-Utility Income

This account has been decreased by \$903 to reflect the appropriate level of non-utility income for ratemaking purposes. Of the \$903 reported as test year non-utility income, \$462 should have been classified as other operating revenues. The remaining balance of \$441 was for customer deposits and should be recorded as such.

(12) Interest Expense

This account has been decreased by \$36 to eliminate test year expense which was for interest paid on customer deposit refunds. This interest expense should not be included in the calculation of Fancy Farm's revenue requirement.



ATTACHMENT B  
STAFF REPORT CASE NO. 95-359

FANCY FARM WATER DISTRICT  
REVENUE REQUIREMENT DETERMINATION

Pro forma Present Rate Operating Expenses	\$ 97,647
Operating Ratio	<u>+ .88</u>
Required Revenue	\$110,963
Less: Pro forma Present Rate Operating Revenues	72,815
Other Income	<u>737</u>
Recommended Revenue Increase	<u>\$ 37,411</u>
Percentage Increase over Test Year	
Normalized Operating Revenues from	
Water Sales of \$71,068	<u>52.64%</u>

ATTACHMENT C  
STAFF REPORT CASE NO. 95-359  
FANCY FARM WATER DISTRICT  
RECOMMENDED RATE SCHEDULE

Fancy Farm's current rate schedule consists of a seven-step declining block rate design. It proposed to simplify the design by combining the last three into a single step. Staff recommends the proposed changes be accepted.

<u>USAGE</u>	<u>RATE</u>
First 2,000 gallons	\$9.22
Next 3,000 gallons	2.35
Next 5,000 gallons	2.24
Next 10,000 gallons	2.10
Over 20,000 gallons	1.90
Milburn - per 1,000 gallons	1.53